INDIANA HOUSING FINANCE AUTHORITY

Financial Statements

December 31, 2001

(With Independent Auditors' Report Thereon)

INDEPENDENT AUDITORS' REPORT
UNQUALIFIED OPINION ON FINANCIAL STATEMENTS

The Board of Directors
Indiana Housing Finance Authority:

We have audited the individual statements of net assets of the various funds of the Indiana Housing Finance Authority (Authority) as of December 31, 2001 and the related individual statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the individual financial positions of the various funds of the Indiana Housing Finance Authority as of December 31, 2001 and the individual results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 2 to the financial statements, in 2001, the Authority adopted Government Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 1, 2002 on our consideration of the Indiana Housing Finance Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

KPMG LLP

Indianapolis, Indiana
March 1, 2002

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2001

(Unaudited)

This section of the Indiana Housing Finance Authority's (Authority) annual financial report presents management's discussion and analysis of financial position and the results of operations during the fiscal year ended December 31, 2001. This information is being presented to provide additional information regarding the activities of the Authority and to meet the disclosure requirements of Government Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Managements Discussion and Analysis – for State and Local Governments.* This analysis should be read in conjunction with the Independent Auditors' Report, financial statements and accompanying notes.

The Authority's financial statements include the operations of funds that the Authority has established to achieve its purpose. The financial transactions of the Authority are recorded in the funds which consist of a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues and expenses as appropriate. The Authority is a self-supporting entity and follows enterprise fund reporting. The Authority is considered a component unit of the State of Indiana and is discretely presented in the State's Financial Statements as determined by the Indiana State Board of Accounts.

Financial Highlights

The assets of the Authority exceeded its liabilities at December 31, 2001 by $153.8 million. Of this amount, $100.8 million is restricted by bond indentures and $53.0 million may be used to meet the obligations of the Authority's operations.

Total bonds payable increased by $84.2 million (9 percent) during the current fiscal year to $984.0 million.

Total assets increased by $96.5 million (9 percent) during 2001 due to the increase of $44.4 million in the mortgage loan portfolio which includes new loans funded with current year bond proceeds and a $53.0 million increase in non-mortgage investments resulting from the bond issuances and loan repayments.

The total change in net assets was $23.4 million. Net operating income was $21.8 million and total non-operating income was $1.6 million.

Total operating revenues were $196.5 million and includes interest income on mortgage loans of $54.3 million, federal program income of $107.5 million, interest income on investments of $11.8 million, a net increase in the fair value of securities of $12.1 million, and $9.5 million in fee income.

Total operating expenses were $174.7 million and includes $55.3 million of interest expense on bonds, $107.5 million of direct federal program expenses, and $9.9 million of general and administrative expense.

Debt Administration

Total current and noncurrent bonds payable as of December 31, 2001 is $984.0 million which increased $84.2 million compared to December 31, 2000. This increase was due to the issuance of four series of mortgage revenue bonds under the Single Family Indenture totaling $160.7 million offset by $76.5 million of repayments and redemptions of bonds previously issued by the Authority.

Operating Analysis

Interest income on mortgage loans, interest income on investments, the net increase in fair value of securities, fee income, and federal grant income represent the significant sources of operating revenue for the Authority.

(Continued)

Interest income on mortgage loans of $54.3 million for 2001 increased compared to $50.9 million for 2000. This increase is due to interest earned on a higher balance of outstanding mortgage loans in the Single Family Indenture due to the origination of loans from proceeds of Single Family Indenture bonds issued in the current year.

Interest income on investments of $11.8 million for 2001 decreased compared to $16.8 million. Part of this decrease is due to $3.3 million in interest income on investments that is recognized under nonoperating income in the current year. The remaining decrease is due to lower rates on investments during the current year consistent with general economic conditions.

The change in fair value of securities for 2001 was $12.1 million compared to $29.5 million in 2001. This line represents a decrease in the overall fair value of investments held at December 31, 2001 compared to their fair value at December 31, 2000 due to current conditions as required by Governmental Accounting Standards Board Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

Fee income of $9.5 million for the current year increased compared to $5.9 million in the prior year primarily as a result of additional fees earned under the Authority's contract with the U.S. Department of Housing and Urban Development to perform certain tasks for Section 8 Contract Administration.

Total interest expense on bonds is $55.3 million in 2001 compared to $52.3 million in 2000. Increased interest expense is a result of an increase in total bonds outstanding due to the issuance of four series of mortgage revenue bonds under the Single Family Indenture.

Total general and administrative expense is $9.9 million compared to $6.8 million in 2000. The increase is primarily due to additional expense incurred to perform the tasks required for Section 8 Contract Administration.

Federal program income and expense represent funds received and disbursed relating to projects funded by the U.S. Department of Housing and Urban Development Section 8 Contract Administration, Community Development Block Grant, HOME Investment Partnership, and other federal programs totaling $107.5 million in 2001.

Nonoperating Activities

Interest income on investments for the General Fund is presented as nonoperating activity and totaled $3.3 million for 2001 compared to interest income on investments of $4.3 million in this fund in 2000. The decrease in income is primarily due to a decreased balance of investments as these funds were used to pay the remaining balance of a bank loan debt in 2001.

Overview

The Authority's single family programs and investment income are the main sources of revenues. Market interest rates have an effect on both the single family program and investment income revenues. If interest rates continue at current levels, the Authority expects single family and investment income to be stable or decrease slightly. If interest rates rise, the Authority expects single family and investment income to increase as new loans are originated and new investments are purchased at the higher levels. If interest rates fall, the Authority expects single family and investment income to decrease as new loans are originated and new investments are purchased at the lower levels. The Authority also expects a drop in market rates to cause an increase in prepayments on higher rate mortgages. The Authority uses these prepayments to call the corresponding series bonds.

INDIANA HOUSING FINANCE AUTHORITY

Statements of Net Assets

December 31, 2001

Assets		General Fund	Single Family Mortgage Program Fund	Multi-Unit Mortgage Program Fund	First Home Mortgage Program Fund	Working Families Program Fund	Total
Current Assets							
Cash and investments	$	44,802,562	—	—	—	—	44,802,562
Accrued interest receivable:							
Investments		333,742	—	—	—	—	333,742
Mortgage loans		31,000	—	—	—	—	31,000
Accounts receivable and other assets		1,324,344	—	—	—	—	1,324,344
Total current assets		46,491,648	—	—	—	—	46,491,648
Noncurrent Assets							
Restricted cash and investments		3,305,827	231,729,951	5,841,487	248,798	1,880,094	243,006,157
Mortgage loans receivable (note 5)		3,498,578	—	—	—	—	3,498,578
Restricted mortgage loans receivable (note 5)		—	749,703,341	39,389,228	10,697,281	33,614,139	833,403,989
Less unamortized commitment fees		(41,596)	(214,188)	(512,484)	—	—	(768,268)
Net mortgage loans receivable		3,456,982	749,489,153	38,876,744	10,697,281	33,614,139	836,134,299
Restricted accrued interest receivable:							
Investments		—	603,545	22,281	36,758	—	662,584
Mortgage loans		—	4,120,626	215,900	54,761	184,038	4,575,325
Deferred debt issuance costs, net		158,000	7,863,548	1,163,173	38,889	260,044	9,483,654
Office furniture and equipment, at cost, less accumulated depreciation		268,422	—	—	—	—	268,422
Restricted accounts receivable and other assets		298,420	71,441	—	—	—	369,861
Interfund accounts		753,293	(708,150)	(8,984)	(4,037)	(32,122)	—
Total noncurrent assets		8,240,944	993,170,114	46,110,601	11,072,450	35,906,193	1,094,500,302
Total assets	$	54,732,592	993,170,114	46,110,601	11,072,450	35,906,193	1,140,991,950
Liabilities							
Current Liabilities							
Bonds payable (note 6)	$	—	11,705,000	195,000	290,000	355,000	12,545,000
Accrued interest payable		—	696,261	544,672	—	—	1,240,933
Accounts payable and other liabilities (note 8)		673,240	—	—	—	—	673,240
Commitment fee deposits		686,672	—	—	—	—	686,672
Total current liabilities		1,359,912	12,401,261	739,672	290,000	355,000	15,145,845
Noncurrent Liabilities							
Bonds payable (note 6)		—	886,775,000	41,995,000	10,425,000	32,245,000	971,440,000
Less original issue discount		—	(63,373)	(84,167)	—	—	(147,540)
Net noncurrent bonds payable		—	886,711,627	41,910,833	10,425,000	32,245,000	971,292,460
Other liabilities (note 8)		331,463	158,298	128,943	—	140,430	759,134
Total noncurrent liabilities		331,463	886,869,925	42,039,776	10,425,000	32,385,430	972,051,594
Total liabilities		1,691,375	899,271,186	42,779,448	10,715,000	32,740,430	987,197,439
Net Assets							
Restricted by bond indentures	$	—	93,898,928	3,331,153	357,450	3,165,763	100,753,294
Unrestricted		53,041,217	—	—	—	—	53,041,217
Total net assets	$	53,041,217	93,898,928	3,331,153	357,450	3,165,763	153,794,511

See accompanying notes to financial statements.

INDIANA HOUSING FINANCE AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Assets

For the year ended December 31, 2001

	General Fund	Single Family Mortgage Program Fund	GNMA Mortgage Program Fund	Multi-Unit Mortgage Program Fund	First Home Mortgage Program Fund	Working Families Program Fund	Total
Operating revenues:							
Interest income on mortgage loans	$ 403,409	48,118,565	—	2,679,137	724,119	2,396,488	54,321,718
Interest income on investments	—	11,196,794	—	348,064	63,472	183,254	11,791,584
Commitment fee amortization	51,506	91,299	—	6,350	—	—	149,155
Fee income	9,536,920	—	—	—	—	—	9,536,920
Federal program income	107,540,334	—	—	—	—	—	107,540,334
Net increase (decrease) in fair value of investments	755,474	10,572,392	—	(23,835)	64,006	742,058	12,110,095
Other income	1,051,564	14,469	—	—	—	—	1,066,033
Total operating revenues	119,339,207	69,993,519	—	3,009,716	851,597	3,321,800	196,515,839
Operating expenses:							
Interest expense on bonds	—	49,830,166	—	2,448,026	730,657	2,280,316	55,289,165
Interest expense on bank loans	344,972	—	—	—	—	—	344,972
Amortization of debt issuance costs	81,093	1,078,588	—	58,122	18,024	44,207	1,280,034
Servicing fees on mortgage loans	14,678	94,954	—	125,237	—	—	234,869
Federal program expenses	107,540,334	—	—	—	—	—	107,540,334
Arbitrage expense	41,995	33,686	—	—	—	—	75,681
General and administrative expenses	7,431,363	2,060,282	—	315,912	14,778	80,835	9,903,170
Total operating expenses	115,454,435	53,097,676	—	2,947,297	763,459	2,405,358	174,668,225
Operating income	3,884,772	16,895,843	—	62,419	88,138	916,442	21,847,614
Nonoperating revenues (expenses):							
Interest income on investments	3,329,789	—	—	—	—	—	3,329,789
Other (notes 1 and 7)	(1,600,000)	—	—	(170,303)	—	—	(1,770,303)
Total nonoperating revenues (expenses)	1,729,789	—	—	(170,303)	—	—	1,559,486
Income before transfers	5,614,561	16,895,843	—	(107,884)	88,138	916,442	23,407,100
Transfers	4,353,423	710,635	(5,064,058)	—	—	—	—
Change in net assets	9,967,984	17,606,478	(5,064,058)	(107,884)	88,138	916,442	23,407,100
Net assets, beginning of year	43,073,233	76,292,450	5,064,058	3,439,037	269,312	2,249,321	130,387,411
Net assets, end of year	$ 53,041,217	93,898,928	—	3,331,153	357,450	3,165,763	153,794,511

See accompanying notes to financial statements.

INDIANA HOUSING FINANCE AUTHORITY

Statements of Cash Flows

For the year ended December 31, 2001

	General Fund	Single Family Mortgage Program Fund	GNMA Mortgage Program Fund	Multi-Unit Mortgage Program Fund	First Home Mortgage Program Fund	Working Families Program Fund	Total
Cash flows from operating activities:	$						
Cash receipts for services	11,665,359	—	—	—	—	—	11,665,359
Interest income on mortgage loans	404,409	47,831,245	—	2,691,722	733,718	2,426,337	54,087,431
Principal repayments on mortgage loans	683,860	80,065,619	—	329,181	1,859,593	5,259,616	88,197,869
Interest received on investments	—	11,180,145	—	348,064	51,524	183,254	11,762,987
Federal revenue	107,540,334	—	—	—	—	—	107,540,334
Federal expenses	(107,540,334)	—	—	—	—	—	(107,540,334)
Purchases of mortgage loans	—	(123,746,363)	—	(759,325)	—	—	(124,505,688)
Cash payments to suppliers	(5,103,300)	(2,141,635)	—	(441,116)	(14,778)	(80,835)	(7,781,664)
Cash payments to employees	(2,187,871)	—	—	—	—	—	(2,187,871)
Interfund transfers	731,762	741,394	(1,467,126)	(111)	(707)	(5,212)	—
Net cash provided by (used in) operating activities	6,194,219	13,930,405	(1,467,126)	2,168,415	2,629,350	7,783,160	31,238,423
Cash flows from noncapital financing activities:							
Proceeds from bond issues	—	160,690,000	—	—	—	—	160,690,000
Payments on collateralized bank loans	(12,228,000)	—	—	—	—	—	(12,228,000)
Debt issuance costs incurred	—	(1,336,727)	—	—	—	—	(1,336,727)
Repayments and redemption of bonds	—	(69,285,000)	—	(430,000)	(2,170,000)	(4,610,000)	(76,495,000)
Interest paid on bonds and bank loans	(347,748)	(49,680,628)	—	(2,444,707)	(730,657)	(2,280,316)	(55,484,056)
Contribution from Pedcor	—	—	—	303,518	—	—	303,518
Payment to Indiana Affordable Housing	—	—	—	(473,821)	—	—	(473,821)
Down Payment Assistance Fund distribution	(500,000)	—	—	—	—	—	(500,000)
Trust Fund distribution	(1,100,000)	—	—	—	—	—	(1,100,000)
Net cash provided by (used in) noncapital financing activities	(14,175,748)	40,387,645	—	(3,045,010)	(2,900,657)	(6,890,316)	13,375,914
Cash flows from capital financing activities:							
Purchases of furniture and equipment	63,683	—	—	—	—	—	63,683
Net cash provided by capital financing activities	63,683	—	—	—	—	—	63,683
Cash flows from investing activities:							
Purchases of investments	(41,150,000)	(62,132,202)	—		—	(1,107,129)	(104,389,331)
Interest received on investments	4,480,266	—	—	—	—	—	4,480,266
Proceeds from sales or maturities of investments	51,982,040	—	—	1,140,339	376,879	—	53,499,258
Net cash provided by (used in) investing activities	15,312,306	(62,132,202)	—	1,140,339	376,879	(1,107,129)	(46,409,807)
Increase (decrease) in cash and cash equivalents	7,394,460	(7,814,152)	(1,467,126)	263,744	105,572	(214,285)	(1,731,787)
Cash and cash equivalents, beginning of year	1,430,818	34,110,999	1,467,126	3,094,283	52,031	314,850	40,470,107
Cash and cash equivalents, end of year	$ 8,825,278	26,296,847	—	3,358,027	157,603	100,565	38,738,320
Reconciliation of cash and cash equivalents:							
Current cash and investments as presented in the statement of net assets	44,802,562	—	—	—	—	—	44,802,562
Restricted cash and investments as presented in the statement of net assets	3,305,827	231,729,951	—	5,841,487	248,798	1,880,094	243,006,157
Total cash and investments as presented in the statement of net assets	48,108,389	231,729,951	—	5,841,487	248,798	1,880,094	287,808,719
Less: investments with maturities greater than three months	39,283,111	205,433,104	—	2,483,460	91,195	1,779,529	249,070,399
Cash and cash equivalents as presented in the statement of cash flows	$ 8,825,278	26,296,847	—	3,358,027	157,603	100,565	38,738,320

INDIANA HOUSING FINANCE AUTHORITY

Statements of Cash Flows

For the year ended December 31, 2001

		General Fund	Single Family Mortgage Program Fund	GNMA Mortgage Program Fund	Multi-Unit Mortgage Program Fund	First Home Mortgage Program Fund	Working Families Program Fund	Total
Reconciliation of operating income to net cash provided by (used in) operating activities:								
Operating income	$	3,884,772	16,895,843	—	62,419	88,138	916,442	21,847,614
Adjustments to reconcile operating income to cash provided by (used in) operating activities:								
Change in fair value of investments		(539,755)	(10,572,392)	—	23,835	(53,523)	(742,058)	(11,883,893)
Gain on sale of investments		83,825	—	—	—	—	—	83,825
Interest on bonds and bank loans		344,972	49,821,637	—	2,441,176	730,657	2,280,316	55,618,758
Amortization and write-off of debt issuance costs and discount amortization		81,092	1,070,468	—	64,973	6,076	44,206	1,266,815
Amortization of nonrefundable fee income		(51,506)	(91,299)	—	(6,350)	—	—	(149,155)
Depreciation		86,658	—	—	—	—	—	86,658
Changes in assets and liabilities:								
Nonrefundable fees received and commitment fee deposits		419,303	—	—	—	—	—	419,303
Purchases of mortgage loans		—	(123,746,363)	—	(759,325)	—	—	(124,505,688)
Principal repayments on mortgage loans		683,860	80,065,619	—	329,181	1,849,110	5,259,616	88,187,386
Accrued interest receivable on loans		1,000	(287,320)	—	12,585	9,599	29,850	(234,286)
Other assets		(52,087)	(868)	—	—	—	—	(52,955)
Accounts payable and other liabilities		520,323	33,686	—	32	—	—	554,041
Interfund accounts		(22,681)	30,759	(2,048)	(111)	(707)	(5,212)	—
Interfund transfer		754,443	710,635	(1,465,078)	—	—	—	—
Net cash provided by (used in) operating activities		6,194,219	13,930,405	(1,467,126)	2,168,415	2,629,350	7,783,160	31,238,423

See accompanying notes to financial statements.

(1) Authorizing Legislation and Funds

The Indiana Housing Finance Authority (the Authority) was created in 1978 by an act of the Indiana Legislature (the Act). The Authority has been given numerous powers under the Act, including the power to enter into contracts and agreements, acquire, hold and convey property and issue notes and bonds, for the purpose of financing residential housing for persons and families of low and moderate incomes.

The powers of the Authority are vested by the Act in seven members, four of whom are appointed by the Governor and three of whom serve by virtue of holding other state offices. The three ex officio members are the Director of Department of Commerce, the Treasurer of State and Director of the Department of Financial Institutions. By statute, the Lieutenant Governor is Director of the Indiana Department of Commerce. The Lieutenant Governor and Treasurer of State hold elective positions, and the Director of the Department of Financial Institutions holds an appointive position at the pleasure of the Governor. The Authority is considered a component unit of the State of Indiana and is discretely presented in the State's Financial Statements as determined by the Indiana State Board of Accounts.

The Act empowers the Authority to (1) make or participate in the making of construction loans and mortgage loans to sponsors of federally assisted multi-family residential housing; (2) purchase or participate in the purchase from mortgage lenders, mortgage loans made to persons of low and moderate income for residential housing; and (3) make loans to mortgage lenders for the purpose of furnishing funds to be used for making mortgage loans to persons and families of low and moderate incomes. The Act authorizes the Authority to issue its bonds and notes to carry out its purposes, and neither the Act nor the Bond Trust Indentures establish any limitation as to the aggregate amount of obligations which the Authority may have outstanding.

The Authority's financial statements include the operations of funds that the Authority has established to achieve its purposes under powers granted to it by the Act. The financial transactions of the Authority are recorded in the funds which consist of a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues and expenses as appropriate. The Authority's resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which financial activity is controlled.

General Fund

The General Fund was established by the Authority to account for all fee income and charges which are not required to be recorded in other funds and for operating expenses of the Authority. In addition, this fund accounts for the federal grant activity of the Authority. In 2001, the Authority elected to set aside $45,407,750 of its single family bonding authority for the issuance of Mortgage Credit Certificates primarily to first time home buyers.

Single Family Mortgage Program Fund

The Single Family Mortgage Program Fund provides for the purchase of mortgage loans made to eligible borrowers for owner occupied housing. Borrowers meeting certain income guidelines may qualify under the Authority's First Home Plus Program. This program is facilitated by a Down Payment Assistance Program from the federal HOME Investment Fund which allows the borrower to receive up to 10% of down payment assistance money. This down payment assistance money is in the form of a non-amortizing second mortgage at a 0% interest rate which is forgivable after five years. The Authority has issued forty-five series of Single Family Mortgage Program Bonds (see note 6).

Commencing in June 1980, the Authority entered into mortgage purchase agreements with certain commercial banks, savings and loan associations and mortgage banking companies admitted to do business in the State of Indiana whereby the lenders agreed to originate mortgage loans on newly constructed and existing dwellings meeting criteria established by the Authority and to sell them to the Authority.

GNMA Mortgage Program Fund

Established in 1989, the GNMA Mortgage Program Fund provided for the purchase of mortgage loans securitized by Government National Mortgage Association (GNMA). GNMA is a wholly-owned corporate instrumentality of the United States within the Department of Housing and Urban Development which guarantees the timely payment of principal and interest. GNMA Certificates are collateralized by mortgage loans made to qualified persons and families of low or moderate income to finance the acquisition of residences located in the State of Indiana. The Authority has issued seven series of Single Family Mortgage Revenue Bonds (GNMA Mortgage Program Fund). During 2000, at the Authority's option, a portion of the proceeds from the issuance of the Single Family Mortgage Program 2000 Series B, 2000 Series C, and 2000 Series D bonds were used to call all of the remaining 1990 Series B, 1990 Series C, 1990 Series D, and 1990 Series F bonds of the GNMA Mortgage Program Fund. Mortgage loans in an amount equal to the proceeds received were transferred to the Single Family Mortgage Program Fund 2000 Series B, 2000 Series C, and 2000 Series D. This fund was closed in 2001.

Multi-Unit Mortgage Program Fund

This fund, established in 1982 under the Multi-Unit Mortgage Program Resolution, uses bond proceeds to provide construction and long-term financing for certain federally assisted multi-unit housing developments intended for occupancy by families and persons of low and moderate incomes. The Authority has issued four series of Multi-Unit Program Bonds and is the special purpose issuer for three series (see note 6).

The Multi-Family Housing Mortgage Revenue Bonds are limited and special obligations of the Authority payable solely from the payments on the mortgage note, certain other payments under the Building Loan Agreement made by the owner and required debt service reserves of the issue. Neither the Bonds nor the obligation to pay the principal or interest thereon constitutes an indebtedness of the Authority or the State of Indiana.

In December 1999, the Authority, as a special purpose issuer, issued $18,190,000 of Multi-Family Housing Revenue Bonds (Indiana Affordable Housing) under a separate closed indenture, which are included in these financial statements as part of the Authority's Multi-Unit Mortgage Program Fund. The proceeds of the bonds were used to originate a mortgage loan to finance the acquisition and rehabilitation of five HUD 236 properties located throughout the State of Indiana. The bonds will be backed solely by the revenues from these properties. Fannie Mae has provided a credit enhancement on the loan which ensures the timely payment of principal and interest on payments on the mortgage loan. The mortgage loan went into default in July 2001, however, Fannie Mae has continued to make the scheduled payments and has started foreclosure proceedings.

In August of 1997, the Authority, as a special purpose issuer, issued $10,000,000 of Multi-Family Housing Mortgage Revenue Bonds (Cumberland Crossing) under a separate closed indenture, which are included in these financial statements as a part of the Authority's Multi-Unit Mortgage Program Fund. The proceeds of the bonds were used to originate a mortgage loan to construct a new multi-family residential rental facility containing 232 apartment units. The expended funds are subject to the terms of a loan agreement dated July 1, 1997, and the bonds are secured by two letters of credit issued by the Federal Home Loan Bank that expire August 21, 2007. Pedcor Investments 1997 XXX LP (Pedcor) is responsible for the bond payments from a source of funds outside of the Authority. During 2001, Pedcor contributed $303,558 in order for the full amount of the bond payments to be made.

In April of 1992, the Authority, as a special purpose issuer, issued $7,230,000 of Multi-Family Housing Mortgage Revenue Bonds (Hunter's Run) under a separate closed indenture, which are included in these financial statements as a part of the Authority's Multi-Unit Mortgage Program Fund. The proceeds of the bonds, after funding the required reserves, were used by the project owner to acquire and rehabilitate an existing multi-family residential rental facility containing 304 apartment units. The expended funds are subject to a mortgage loan amortizable over 40 years commencing October 1, 1993. The permanent mortgage is insured by the Federal Housing Administration pursuant to the provisions of Section 221 (d) (4) of the National Housing Act of 1934.

First Home Mortgage Program Fund

Established in 1994, the First Home Indenture provides for the purchase of low-income mortgage loans which are securitized by the Federal National Mortgage Association (FNMA) which guarantees the timely payment of principal and interest. FNMA is a federally chartered stockholder-owned, privately managed corporation which works to provide liquidity to the residential mortgage market. The FNMA Certificates are collateralized by mortgage loans made to qualified persons and families of low income to finance the acquisition of single family residences in the State of Indiana. This program was facilitated by a Down Payment Assistance Program from the federal HOME Investment Fund, which provided a 20% second mortgage at 0% interest. Therefore, the Authority offered 100% financing to all participants in this program. The Authority has issued four series in this Indenture which were privately placed with FNMA.

Working Families Program Fund

Established in December of 1994, this Indenture originally provided for the preservation of bond volume in the short term. A portion of the Convertible Option Bonds (COB) were remarketed into a single family mortgage program within this Indenture. The loans of the program are collateralized by FNMA and GNMA certificates. As a part of the remarketing of the COB, in July 1996 the Authority issued two series within this Indenture. Approximately eighty percent of the bond proceeds are utilized under the same guidelines as the Authority's Single Family Mortgage Program Fund.

The remaining twenty percent of the bond proceeds have been set aside for a special program referred to as the Working Families Program. This program allows for down payment assistance of 10% in addition to the 10% assistance described in the Single Family Mortgage Program Fund. The source of these additional funds is the positive arbitrage earned under the original COB investments and bonds. These arbitrage funds are loaned to the qualified borrower at 0% and are payable to the Authority upon payoff of the first mortgage.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The Authority's financial statements have been prepared on the basis of the Governmental Proprietary Fund concept as set forth in Statement 1 of the Governmental Accounting Standards Board (GASB). The Governmental Proprietary Fund concept provides that financial activities operated similarly to private business enterprises and financed through fees and charges assessed primarily to users of the services be presented as proprietary funds. The financial statements have been prepared using the accrual method of accounting.

In accordance with the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Authority has elected, in addition to applying Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board opinions, and Accounting Research Bulletins issued on or before November 30, 1989, to apply all FASB Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

The Authority has adopted GASB Statement No. 34, *Basic Financial Statements – and Managements Discussion and Analysis – for State and Local Governments* (Statement No. 34) for the year ended December 31, 2001. Statement No. 34 requires the Authority to make several changes to the presentation of its basic financial statements in addition to requiring the section for Management's Discussion and Analysis as required supplementary information to precede the financial statements. In order to comply with the requirements of Statement No. 34, the statement of net assets has been modified to report a classified statement of net assets; the statement of revenues, expenses, and changes in net assets has been formatted to report operating and nonoperating revenues and expenses; and the statement of cash flows has been prepared using the direct method.

(b) Investment Securities

The Authority reports its investments securities at fair value in accordance with Governmental Accounting Standards Board (GASB) Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools,* (Statement No. 31). Statement No. 31 requires investment securities, including mortgage-backed securities, to be recorded at fair value and the unrealized gains or losses reported in the Statement of Revenues, Expenses, and Changes in Net Assets. Realized gains or losses were computed as the difference between the proceeds of investment sales and the original cost of the investments sold. The calculation of realized gains or losses is independent of the calculation of the net change in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year(s) and the current year. Realized gain in the General Fund amounted to $83,825 for 2001.

(Continued)

Following is a summary of the effects of valuing investment securities at fair value on total assets, net assets and change in net assets for 2001:

	Total Assets		Net Assets	
	Fair Value	Cost	Fair Value	Cost
General Fund	$ 54,093,286	52,517,125	$ 53,041,217	51,465,056
Single Family Mortgage Program Fund	993,170,114	989,750,406	93,898,928	90,479,220
Multi-Unit Mortgage Program Fund	46,110,601	45,962,878	3,331,153	3,183,430
First Home Mortgage Program Fund	11,072,450	10,997,960	357,450	282,960
Working Families Program Fund	35,906,193	35,281,954	3,165,763	2,541,524
Total	$ 1,140,352,644	1,134,510,323	$ 153,794,511	147,952,190

	Income Before Transfers	
	Fair Value	Cost
General Fund	$ 5,614,561	4,942,912
Single Family Mortgage Program Fund	16,895,843	6,323,451
Multi-Unit Mortgage Program Fund	(107,884)	(84,049)
First Home Mortgage Program Fund	88,138	24,132
Working Families Program Fund	916,442	174,383
Total	$ 23,407,100	11,380,829

(c) ***Bond Issuance Costs***

Bond issuance costs are deferred and amortized over the contractual life of the respective bond issue based on the interest method.

(d) Original Issue Discounts

Original issue discounts on bonds are amortized using the interest method, over the life of the bonds to which they relate.

(e) Office Furniture and Equipment

Office furniture and equipment is stated at cost less accumulated depreciation. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets which range from three to seven years.

(f) Fair Value of Financial Instruments

The fair value of the Authority's financial instruments either approximate fair value or are stated at fair value except for bonds payable. It is not practicable to estimate the fair value of the Authority's bonds payable because of the lack of quoted market prices and the inability to estimate fair value without incurring excessive costs.

(g) Revenue and Expense Recognition

The Authority records all revenues derived from mortgages, and federal programs as operating revenues since these revenues are generated from the Authority's daily operations needed to carry out its statutory purpose. Investment income in the General Fund is recorded as nonoperating revenue while investment income in all other funds is recorded as operating.

(h) Fee Income

Nonrefundable fees received (commitment and buy-down fees) in excess of direct costs associated with originating mortgage loans are deferred and recognized over the life of the mortgage loans. Fees for Mortgage Credit Certificate and Mortgage Revenue Bond Programs are recorded as fee income in the General Fund as certificates are issued. Low Income Housing Tax Credit fees are recognized as applications are submitted. The Authority also receives certain administrative fees for a federal grant program which are recorded as earned.

(i) Provision for Possible Loan Losses

No provision for possible loan losses has been made because the Authority has purchased mortgage pool insurance on its loans, or they are fully insured by the FHA, as described in note 5. The remaining loans have been pooled into FNMA or GNMA mortgage-backed securities which ensures the timely payment of principal and interest on the underlying mortgage loans.

(j) Bonds, Bank Loans and Interest Payable

Bond principal, bank loan principal and interest payments due and paid on January 1 of the following fiscal year are considered paid as of December 31.

(k) Allocation of Expenses Among Funds

The Single Family, GNMA, First Home, Multi-Unit Mortgage, and Working Families Programs, provide that funds may be transferred to the General Fund for the purpose of paying reasonable and necessary program expenses.

(l) Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand and on deposit and investments with a maturity of three months or less.

(3) Restricted Cash and Restricted Investments

The Trust Indentures between the Authority and the Program Trustee established special accounts for the segregation of assets and restriction of the use of bond proceeds and certain other funds received. As of December 31, 2001, the assets of all accounts equaled or exceeded the requirements as established by the Indentures. Such assets are restricted for the following purposes:

	General Fund	Single Family Mortgage Program Fund	GNMA Mortgage Program Fund	Multi-Unit Mortgage Program Fund	First Home Mortgage Program Fund	Working Families Program Fund	Combined
Refundable Reservation Fee Escrow Accounts	$ 686,672	—	—	—	—	—	686,672
Loan or Bond Proceeds Accounts - Payment of issuance costs and purchase of qualified mortgage loans	—	114,097,811	—	—	—	132,591	114,230,402
Revenue Accounts-Deposit of Program revenues for debt service payments and Program expense disbursements	604,642	92,249,884	—	1,788,567	248,798	1,747,503	96,639,394
Mortgage Reserve Accounts-Payment of expenses incurred in protecting the Authority's interest in mortgage loans, including property repair and improvement	34,663	2,302,145	—	156,936	—	—	2,493,744
Debt Service Reserve Accounts-Equal to the maximum annual amount of debt service requirements on outstanding bonds during current or any future calendar year, a percentage of mortgage loans receivable under the indenture, or the amount of designated as debt service reserve accounts bonds	—	23,080,111	—	3,446,421	—	—	26,526,532
Loan Loss Escrow Account-Established to reserve for mortgage loan defaults not covered by the Federal Department of Housing and Urban Development, and shall be maintained at one-half of one percent of the outstanding principal balance of loans purchased	15,838	—	—	—	—	—	15,838
Rebate arbitrage account (Hunter's Run)	—	—	—	16,165	—	—	16,165
ADFA investment	1,196,526	—	—	—	—	—	1,196,526
Earn Out account (Indiana Affordable Housing, Inc.)	—	—	—	433,398	—	—	433,398
Federal programs funds	767,486	—	—	—	—	—	767,486
	$ 3,305,827	231,729,951	—	5,841,487	248,798	1,880,094	243,006,157

(Continued)

(4) Cash and Investments

A summary of cash and investments as of December 31, 2001 follows:

	Category 1	Category 3	Total Fair Value	Cost
Cash and collateralized repurchase agreements	$ 33,011,671	4,926,649	37,938,320	37,938,320
Certificates of deposit	800,000	—	800,000	800,000
U.S. Treasury Bonds and Notes	14,083,655	—	14,083,655	11,548,245
Federal agency obligations	57,240,935	—	57,240,935	55,581,964
Guaranteed investment contracts and other	177,745,809	—	177,745,809	177,745,809
	$ 282,882,070	4,926,649	287,808,719	283,614,338

The Authority's cash and collateralized repurchase agreements are insured in full by the combination of Federal deposit insurance and the Indiana Public Deposit Insurance Fund. The Authority's investments are categorized by the level of custodial credit risk assumed. Category 1 includes investments insured or registered or held by the entity, its agent or its trustee in the Authority's name. Category 3 includes bank balances that are not collateralized or insured but are held by the Authority's banks. The Bond Indentures permit investments in the direct obligations of, or obligations guaranteed by, the United States of America, obligations issued by certain agencies of the Federal government, and investments collateralized by those types of investments. At December 31, 2001, all investments held by the Authority were in compliance with the requirements of the Indentures.

(5) Mortgage Loans Receivable

The Single Family Mortgage Program requires that mortgage loans shall be made to borrowers whose adjusted family income does not exceed 125% of the median income for the borrower's geographic area. At least 40% of the mortgage loans purchased by the Authority must be loans to borrowers whose income is below 80% of the median income for the borrower's geographic area. In addition, Section 103A of the Internal Revenue Code specifies certain requirements with respect to the nature of the residence, mortgage and eligibility of the borrower.

The Single Family Mortgage Program Bond Trust Indenture requires that all mortgage loans be insured by the FHA, VA or, if the loan to value ratio is greater than 80%, by an approved private mortgage insurer.

The Indenture also requires pool insurance ranging from 10% to 25% of the initial principal amount of mortgage loans to be purchased. The Authority has obtained mortgage pool insurance covering net losses on all mortgage loans financed from the proceeds of the 1980 through 1987 Single Family Mortgage Program bonds.

The proceeds of the 1992 through 2001 Single Family and Working Family bonds were used to purchase GNMA and FNMA certificates collaterallized by mortgage loans approved under the guidelines of the Single Family Mortgage Program.

All of the mortgages in the Multi-Unit Mortgage Program Fund except Cumberland Crossing and Indiana Affordable Housing are insured by the FHA. The mortgages are insured under the FHA 221 (d) (4) program. The bonds in the Cumberland Crossing Series are secured by two letters of credit. The mortgage in the Indiana Affordable Housing Series is secured by FNMA under a credit facility.

Mortgage loans which collateralize the FNMA certificates purchased by the Authority under the First Home Mortgage Program requires that the loans be made to first-time home owners and meet the standard requirements for FNMA underwritten mortgages, as well as U.S. Department of Housing and Urban Development (HUD) guidelines.

The financing periods of the mortgage loans financed through the Single Family, First Home, and Working Families Mortgage Programs vary in duration from twenty-five to thirty years (principally thirty years). The financing rates at December 31, 2001, are as follows:

Single Family Mortgage Program	Mortgage Rate	Certificate Rate
1985 Series B	6.875% to 13.880%	
1987 Series C	8.950% to 9.470%	
1992 Series A	7.875% to 13.875%	6.775% to 6.900%
1995 Series A	7.440% to 7.540%	6.935% to 6.940%
1995 Series B	6.750% to 9.940%	6.245% to 6.250%
1995 Series C	6.650% to 10.700%	6.135% to 6.150%
1996 Series A	7.150% to 7.250%	6.625% to 6.650%
1996 Series D	6.250% to 9.940%	5.750% to 6.650%
1997 Series A	6.250% to 8.500%	5.750% to 6.400%
1997 Series B	6.000% to 7.375%	5.415% to 6.875%
1997 Series C	6.250% to 7.310%	5.750% to 6.760%
1997 Series D	6.875% to 7.250%	6.250% to 6.700%
1998 Series A	6.000% to 7.500%	5.415% to 7.000%
1998 Series B	6.500% to 7.540%	5.915% to 7.000%
1998 Series C	6.000% to 7.500%	5.415% to 7.000%
1998 Series D	6.000% to 8.900%	5.415% to 6.250%
1999 Series A	6.000% to 7.750%	5.415% to 7.250%
1999 Series X	6.000% to 8.900%	5.415% to 8.400%
1999 Series Y	6.000% to 8.900%	5.415% to 8.400%
1999 Series Z	6.000% to 7.790%	5.415% to 7.250%
2000 Series A	6.500% to 8.000%	6.000% to 7.500%
2000 Series B	6.000% to 8.350%	5.500% to 7.850%
2000 Series C	6.500% to 8.350%	5.915% to 7.850%
2000 Series D	6.500% to 8.500%	5.915% to 8.040%
2001 Series A	6.500% to 7.250%	5.915% to 6.750%
2001 Series B	6.500%	5.915% to 6.00%
2001 Series C	6.500%	5.915%

First Home Program	Mortgage Rate	Certificate Rate
1994 Series A	6.75% to 6.90%	6.13% to 6.28%
1994 Series B	6.75%	6.13%
1994 Series C	6.65%	6.03%
1994 Series D	6.65% to 6.80%	6.03% to 6.18%

Working Families Program Fund	Mortgage Rate	Certificate Rate
1994 Series D	7.380% to 7.480%	6.855% to 6.88%
1996 Series B	7.380% to 7.480%	6.855% to 6.88%

GNMA and FNMA certificates, which are included in the mortgage loan receivable balances as presented in the statement of net assets, fall under the requirements set forth by the adoption of GASB Statement No. 31. The table below summarizes the effect of valuing the mortgage loan receivable balance at fair value.

	Fair Value	Cost
General Fund	$ 3,498,578	3,498,578
Single Family Mortgage Program Fund	749,703,341	748,754,131
Multi-Unit Mortgage Program Fund	39,389,228	39,389,228
First Home Mortgage Program Fund	10,697,281	10,622,790
Working Families Program Fund	33,614,139	32,989,900
Total	$ 836,902,567	835,254,627

(Continued)

(6) Bonds Payable

Bonds payable at December 31, 2001 consist of (dollars in thousands):

Single Family Mortgage Program Fund		Original Amount	Balance 2001
1992 A Refunding:			
Serial bonds (6.35%), due 2002	$	17,740	845
Term bonds (6.60%), due 2005		8,775	5,610
Term bonds (6.75%), due 2009		16,885	10,780
Term bonds (6.80%), due 2016		38,745	24,725
		82,145	41,960
1995 Series A:			
Serial bonds (5.40% to 6.00%), due 2002 – 2008		7,095	3,680
Term bonds (6.45%), due 2014		5,075	4,215
Term bonds (6.25%), due 2016		4,230	3,515
Term bonds (6.10%), due 2025		6,000	—
Term bonds (6.60%), due 2026		12,600	10,465
		35,000	21,875
1995 Series B:			
Serial bonds (5.10% to 5.75%), due 2002 – 2008		12,725	4,815
Term bonds (6.125%), due 2014		8,285	5,035
Term bonds (6.15%), due 2017		3,825	2,320
Term bonds (6.30%), due 2020		3,440	2,080
Term bonds (6.30%), due 2022		3,900	2,385
Term bonds (6.30%), due 2027		9,760	5,900
		41,935	22,535
1995 Series C:			
Serial bonds (4.85% to 5.55%), due 2002 – 2008		10,500	5,490
Term bonds (5.25%), due 2012		8,680	—
Term bonds (5.95%), due 2015		10,475	10,475
Term bonds (5.80%), due 2026		14,885	4,360
Term bonds (6.15%), due 2027		15,460	15,460
		60,000	35,785

(Continued)

Bonds payable, continued	**Original Amount**	**Balance 2001**
1996 Series A:		
Serial bonds (5.25% to 6.05%), due 2002 – 2010	7,625	3,995
Term bonds (5.95%), due 2013	2,450	2,190
Term bonds (6.25%), due 2018	4,965	4,415
Term bonds (5.55%), due 2021	4,960	—
Term bonds (6.25%), due 2028	15,000	13,375
	35,000	23,975
1996 Series D:		
Serial bonds (4.90% to 5.55%), due 2002 – 2008	8,525	4,100
Term bonds (6.05%), due 2015	6,890	5,835
Term bonds (6.35%), due 2021	10,015	8,450
Term bonds (6.35%), due 2025	8,710	7,350
Term bonds (5.70%), due 2028	7,045	2,420
	41,185	28,155
1997 Series A-1:		
Term bonds (5.10%), due 2016	8,870	5,910
	8,870	5,910
1997 Series A-2:		
Serial bonds (4.70% to 5.40%), due 2002 – 2008	7,115	3,765
Term bonds (6.00%), due 2019	3,710	3,025
Term bonds (6.10%), due 2022	4,765	3,885
Term bonds (6.10%), due 2028	10,000	8,135
	25,590	18,810
1997 Series B-2:		
Term bonds (6.00%), due 2016	3,025	2,835
Term bonds (6.125%), due 2026	11,890	11,135
Term bonds (6.15%), due 2029	5,085	4,765
	20,000	18,735
1997 Series C-1:		
Taxable term bond (floating rate), due 2027	8,940	3,625
	8,940	3,625

(Continued)

Bonds payable, continued	Original Amount	Balance 2001
1997 Series C-2:		
Term bonds (5.70%), due 2016	1,905	1,735
	1,905	1,735
1997 Series C-3:		
Serial bonds (4.80% to 5.25%), due 2002 – 2006	1,060	695
Term bonds (5.85%), due 2014	4,460	4,065
Term bonds (5.95%), due 2028	18,635	16,980
	24,155	21,740
1997 Series D-1:		
Taxable term bonds (6.94%), due 2019	14,680	9,770
	14,680	9,770
1997 Series D-2:		
Term bonds (5.85%), due 2020	960	960
Term bonds (5.875%), due 2024	6,450	6,450
Term bonds (5.90%), due 2026	4,840	4,840
Term bonds (5.90%), due 2030	8,070	8,070
	20,320	20,320
1998 Series A-1:		
Taxable term bonds (6.18%), due 2029	7,035	4,635
	7,035	4,635
1998 Series A-2:		
Serial bonds (4.85% to 4.95%), due 2010 – 2011	875	835
Term bonds (5.15%), due 2017	5,625	5,365
	6,500	6,200
1998 Series A-3:		
Serial bonds (4.30% to 5.05%), due 2002 – 2010	4,665	3,800
Term bonds (5.375%), due 2022	7,000	6,685
Term bonds (5.375%), due 2029	9,800	9,355
	21,465	19,840
1998 Series B-1:		
Taxable term bonds (6.45%), due 2029	15,000	11,005
	15,000	11,005

Bonds payable, continued	**Original Amount**	**Balance 2001**
1998 Series B-2:		
Term bonds (5.40%), due 2016	4,285	3,675
	4,285	3,675
1998 Series B-3:		
Serial bonds (4.60% to 5.20%), due 2002 – 2010	3,035	2,260
Term bonds (5.55%), due 2024	8,860	7,595
Term bonds (5.55%), due 2030	10,000	8,495
	21,895	18,350
1998 Series C-1:		
Taxable term bonds (6.07%), due 2025	7,300	4,760
	7,300	4,760
1998 Series C-2:		
Term bonds (5.25%), due 2017	3,710	3,450
	3,710	3,450
1998 Series C-3:		
Serial bonds (4.25% to 5.15%), due 2002 – 2011	4,730	3,880
Term bonds (5.30%), due 2013	1,655	1,540
Term bonds (5.45%), due 2028	270	255
Term bonds (4.75%), due 2028	5,000	3,445
Term bonds (5.45%), due 2029	13,425	12,525
	25,080	21,645
1998 Series D-1:		
Term bonds (5.15%), due 2017	3,710	3,280
	3,710	3,280
1998 Series D-2:		
Serial bonds (4.00% to 4.90%), due 2002 – 2010	3,720	3,020
Term bonds (5.25%), due 2028	10,000	10,000
Term bonds (5.35%), due 2028	145	65
Term bonds (4.625%), due 2030	13,000	8,755
Term bonds (5.35%), due 2030	4,195	3,710
	31,060	25,550
1999 Series A-1:		
Term bonds (5.05%), due 2017	4,280	4,220
	4,280	4,220

Bonds payable, continued	Original Amount	Balance 2001
1999 Series A-2:		
Serial bonds (3.95% to 5.00%), due 2002 – 2011	5,035	4,785
Term bonds (5.25%), due 2029	235	230
Term bonds (4.70%), due 2029	8,000	6,560
Term bonds (5.25%), due 2030	17,450	17,210
	30,720	28,785
1999 Series X-1:		
PAC bonds (5.96%), due 2030	10,000	8,430
	10,000	8,430
1999 Series X-2:		
Serial bonds (3.90% to 5.00%), due 2002 – 2012	2,725	2,640
Term bonds (5.15%), due 2019	4,900	4,825
Term bonds (4.55%), due 2030	9,000	5,910
Term bonds (5.30%), due 2031	15,035	14,765
	31,660	28,140
1999 Series Y-1:		
PAC bonds (6.86%), due 2031	15,000	13,020
	15,000	13,020
1999 Series Y-2:		
Term bonds (5.35%), due 2013	1,290	1,240
Term bonds (5.50%), due 2019	4,655	4,480
	5,945	5,720
1999 Series Y-3:		
Serial bonds (4.25% to 5.35%), due 2002 - 2012	2,955	2,850
PAC bonds (5.05%), due 2030	7,650	5,990
Term bonds (5.65%), due 2031	14,635	14,095
	25,240	22,935
1999 Series Z-1:		
PAC bonds (7.09%), due 2029	13,000	11,630
	13,000	11,630
1999 Series Z-2:		
Term bonds (5.55%), due 2013	545	540
	545	540

(Continued)

Bonds payable, continued	**Original Amount**	**Balance 2001**
1999 Series Z-3:		
Serial bonds (4.50% to 5.70%),		
due 2002 - 2012	2,710	2,655
Term bonds (5.95%), due 2019	3,475	3,440
Term bonds (5.65%), due 2030	5,040	4,665
Term bonds (6.05%), due 2030	13,165	13,025
Term bonds (6.05%), due 2031	1,780	1,760
	26,170	25,545
2000 Series A-1:		
PAC bonds (7.75%), due 2030	15,000	14,495
	15,000	14,495
2000 Series A-2:		
Term bonds (6.25%), due 2019	4,430	4,140
	4,430	4,140
2000 Series A-3:		
Serial bonds (4.85% to 5.80%),		
due 2002 - 2010	1,930	1,805
Term bonds (6.45%), due 2030	13,220	12,355
PAC bonds (5.90%), due 2030	5,420	5,370
	20,570	19,530
2000 Series B-1:		
PAC bonds (7.57%), due 2030	15,000	14,110
	15,000	14,110
2000 Series B-2:		
Serial bonds (4.90% to 5.65%),		
due 2002 - 2012	4,815	4,355
Terms bonds (6.00%), due 2019	5,880	5,440
Terms bonds (6.10%), due 2030	15,000	13,870
Terms bonds (6.10%), due 2031	4,700	4,345
PAC bonds (5.55%), due 2031	10,950	8,645
	41,345	36,655
2000 Series C-1:		
PAC bonds (7.85%), due 2031	15,000	14,605
	15,000	14,605
2000 Series C-2:		
Term bonds (5.875%), due 2017	9,440	8,815
	9,440	8,815

Bonds payable, continued	Original Amount	Balance 2001
2000 Series C-3:		
Serial bonds (5.10% to 5.60%), due 2002 - 2009	2,385	2,075
Term bonds (5.45%), due 2009	2,615	2,160
Term bonds (6.125%), due 2019	1,725	1,610
PAC bonds (5.65%), due 2030	11,000	9,175
Term bonds (6.30%), due 2030	5,000	4,670
Term bonds (6.30%), due 2031	10,265	9,585
	32,990	29,275
2000 Series D-1:		
PAC bonds (7.34%), due 2030	15,000	14,815
	15,000	14,815
2000 Series D-2:		
Serial bonds (4.75% to 5.15%), due 2007 - 2012	3,700	3,390
Term bonds (5.625%), due 2017	5,795	5,150
	9,495	8,540
2000 Series D-3:		
Serial bonds (4.75% to 5.15%), due 2002 - 2007	2,355	1,995
Term bonds (5.95%), due 2026	8,160	7,255
PAC bonds (5.35%), due 2031	10,000	8,620
Term bonds (5.95%), due 2032	9,790	8,705
	30,305	26,575
2001 Series A-1:		
Term bonds (5.35%), due 2019	2,045	2,045
	2,045	2,045
2001 Series A-2:		
Serial bonds (3.75% to 5.15%), due 2003 - 2013	5,895	5,895
Term bonds (5.60%), due 2021	4,085	4,085
Term bonds (5.70%), due 2031	7,695	7,695
PAC bonds (4.80%), due 2031	7,600	7,550
Term bonds (5.70%), due 2032	7,680	7,680
	32,955	32,905
2001 Series B-1:		
PAC bonds (6.15%), due 2033	10,000	10,000
	10,000	10,000

(Continued)

Bonds payable, continued		**Original Amount**	**Balance 2001**
2001 Series B-2:			
Serial bonds (4.15% to 4.70%), due 2007 - 2012		2,465	2,465
		2,465	2,465
2001 Series B-3:			
Serial bonds (3.80% to 4.30%), due 2004 - 2007		1,335	1,335
Term bonds (5.45%), due 2020		2,500	2,500
Term bonds (5.45%), due 2021		4,480	4,480
Term bonds (5.55%), due 2032		8,220	8,220
Term bonds (5.55%), due 2033		11,000	11,000
		27,535	27,535
2001 Series C:			
Serial bonds (2.75% to 4.75%), due 2003 - 2012		6,965	6,965
Term bonds (5.25%), due 2021		8,090	8,090
PAC bonds (4.30%), due 2031		8,785	8,785
Term bonds (5.375%), due 2031		16,160	16,160
		40,000	40,000
2001 Series D-1:			
Term bonds (1.90%), due 2013		2,235	2,235
		2,235	2,235
2001 Series D-2:			
Term bonds (1.95%), due 2034		43,455	43,455
		43,455	43,455
	$	1,098,590	898,480

Multi-Unit Mortgage Program Fund		**Original Amount**	**Balance 2001**
1983 Series A:			
Term bonds (9.125%), due 2002	$	300	15
Term bonds (9.375%), due 2024		1,720	370
		2,020	385

(Continued)

Bonds payable, continued		Original Amount	Balance 2001
1993 Series A:			
Serial Bonds (6.20% to 6.30%), due 2002 – 2003		2,185	375
Term bonds (6.60%), due 2011		2,075	2,075
Term bonds (6.75%), due 2021		4,665	4,665
		8,925	7,115
1992 Hunter's Run:			
Term bonds (7.0%), due 2003		400	95
Term bonds (7.25%), due 2018		1,500	1,500
Term bonds (7.35%), due 2033		5,330	5,330
		7,230	6,925
1997 Series M-A (Cumberland Crossing):			
Term bonds (adjustable rate), due 2028		9,200	9,062
		9,200	9,062
1997 Series M-B (Cumberland Crossing):			
Term bonds (adjustable rate), due 2028		800	788
		800	788
1999 Series A (Indiana Affordable Housing):			
Term bonds (5.40%), due 2009		1,400	1,400
Term bonds (6.10%), due 2020		5,500	5,500
Term bonds (6.20%), due 2030		10,430	10,430
		17,330	17,330
1999 Series B (Indiana Affordable Housing):			
Term bonds (6.88%), due 2004		860	585
		860	585
	$	46,365	42,190

First Home Mortgage Program Fund		Original Amount	Balance 2001
1994 Series A:			
Serial bonds (5.26% to 5.81%), due 2002 – 2008	$	1,165	455
Term bonds (5.96%), due 2014		1,015	590
Term bonds (6.06%), due 2020		1,430	830
Term bonds (6.11%), due 2025		1,430	760
		5,040	2,635

Bonds payable, continued		**Original Amount**	**Balance 2001**
1994 Series B:			
Serial bonds (5.08% to 5.68%), due 2002 – 2008		1,165	455
Term bonds (5.88%), due 2014		1,015	610
Term bonds (5.93%), due 2020		1,430	770
Term bonds (5.98%), due 2025		1,430	730
		5,040	2,565
1994 Series C:			
Serial bonds (4.76% to 5.46%), due 2002 – 2008		1,165	515
Term bonds (5.71%), due 2014		1,015	660
Term bonds (5.81%), due 2020		1,455	865
Term bonds (5.86%), due 2025		1,430	800
		5,065	2,840
1994 Series D:			
Serial bonds (5.24% to 5.64%), due 2002 – 2008		1,165	470
Term bonds (5.84%), due 2014		1,015	650
Term bonds (5.94%), due 2020		1,455	820
Term bonds (5.94%), due 2025		1,430	735
		5,065	2,675
	$	20,210	10,715

Working Families Program Fund		**Original Amount**	**Balance 2001**
1994 Series D:			
Term bonds (3.90%), due 1996	$	31,265	—
Term bonds (5.60%), due 2009		—	70
Term bonds (6.35%), due 2017		—	12,110
		31,265	12,180
1996 Series B:			
Serial bonds (5.15% to 5.35%), due 2002 – 2004		3,225	915
Term bonds (5.80%), due 2020		6,220	2,730
Term bonds (6.45%), due 2025		13,835	10,880
Term bonds (6.45%), due 2027		7,500	5,895
		30,780	20,420
	$	62,045	32,600

(Continued)

The Single Family, Multi-Unit, First Home and Working Families bonds are special obligations of the Authority. The bonds are payable solely from the revenues and assets pledged to the payment thereof pursuant to the Bond Trust Indentures. Hunters Run, Cumberland Crossing, and Indiana Affordable Housing, three bond series within the Multi-Unit Mortgage Program Fund, are conduit issues. All scheduled, advance and delinquent payments on mortgage loans, mortgage insurance and guaranty proceeds received by the Authority, and the earnings on investments of amounts held under the Bond Trust Indentures are pledged to secure the payment of these three bond series. The three bond series are also secured by a pledge and assignment of the rights and interests of the Authority in the mortgage loans and a pledge of the investment accounts of the program fund and the amounts of which are prescribed by the Trust Indentures.

The 1997 Series B, 1997 Series C, 1997 Series D, 1998 Series A, 1998 Series B, 1998 Series C, 1999 Series X, 1999 Series Y, 1999 Series Z, 2000 Series A, 2000 Series B, 2000 Series C, 2000 Series D and 2001 Series B include both taxable and tax-exempt bonds. Taxable bonds were utilized to increase resources for the Authority's mortgage program.

The 1997 Series C-1 are floating rate bonds. The interest rate is the three-month LIBOR plus .25% adjusted on the second business day preceding the beginning of each calendar quarter. The General Fund purchased an interest rate cap to protect the rate from exceeding 8.0%.

The 1997 Series M-A and 1997 Series M-B Bonds have an adjustable rate that is currently remarketed on a weekly basis.

The 2001 Series D includes a provision that on or after September 1, 2002, and prior to December 17, 2002, the Authority may convert the interest rate on all or any portion from an adjustable rate to a fixed rate or may redeem all or any portion of the bonds.

The Single Family, Multi-Unit, First Home and Working Families bonds are subject to optional redemption provisions at various dates at prices ranging from 100 to 103 percent of the principal amount, extraordinary optional redemption at par from unexpended or uncommitted funds, prepayments of mortgage loans and proportionate amounts in certain related accounts or excess revenues. The Authority redeemed $65,580,000 of bonds in 2001 from prepayments which had been received. The bond redemptions resulted in write-offs of unamortized discount and deferred debt issuance costs related to the redeemed bonds.

(Continued)

The following are the scheduled amounts of principal and interest payments in the five years subsequent to December 31, 2001 and thereafter (all amounts in the thousands). The Authority typically has significant prepayments of principal amounts and therefore does not expect to pay out interest payments in their scheduled amounts.

	Single Family Mortgage Program Fund		Multi-Unit Mortgage Program Fund		First Home Program Fund		Working Families Program Fund		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2002	$ 11,705	51,714	195	2,503	290	621	355	2,057	12,545	56,895
2003	13,545	49,474	210	2,474	285	606	370	2,038	14,410	54,592
2004	14,940	48,690	220	2,439	290	591	195	2,018	15,645	53,738
2005	15,370	47,846	240	2,401	290	575	10	2,013	15,910	52,835
2006	16,200	46,945	255	2,363	295	560	10	2,012	16,760	51,880
Thereafter	826,720	658,697	41,070	34,426	9,265	5,949	31,660	26,374	908,715	725,446
Total	$ 898,480	903,366	42,190	46,606	10,715	8,902	32,600	36,512	983,985	995,386

Collateralized Bank Loans

During 1996, the Authority used one new bank loan to redeem all of the bonds from the General Fund Collateralized Mortgage Obligation Series A. This loan was paid in full during 2001 and no other bank debt existed at December 31, 2001.

(7) Commitments

As of December 31, 2001 the Authority had the following commitments:

Lease

Lease expense of the Authority was $233,798 in 2001. Future lease commitments under the operating lease which expires in 2006 are as follows:

Year	Amount
2002	$ 237,705
2003	243,906
2004	250,107
2005	256,308
2006	173,628

Excess Investment Earnings

In order to preserve the exemption of federal and state income taxation on interest received by the bond holders, each bond issue is subject to certain Internal Revenue Code (IRC) and U.S. Treasury Regulations. Under these regulations, the Authority is required to pay the federal government any excess earnings as defined by IRC Section 148(f) on all nonpurpose investments if such investments were invested at a rate greater than the yield on the bond issue.

The Authority's liability, included in accounts payable and other liabilities on the combined balance sheet, for excess earnings at December 31, follows:

General Fund	$ 41,995
Single Family Program Fund	158,299
Working Families Program Fund	140,429
	$ 340,723

Distributions

The Authority elected to transfer $1,100,000 to the Low Income Housing Trust Fund and $500,000 to supplement the down payment assistance program in 2001.

(8) Retirement Plan

(a) Plan Description

The Authority contributes to the Indiana Public Employees' Retirement Fund (PERF), an agent multiple-employer retirement system that acts as a common investment and administrative agent for units of state and local government in Indiana. PERF was created and is governed by state statutes I.C.S. 5-10.2 and 5-10.3. As such it is PERF's responsibility to administer the law in accordance with the expressed intent of the General Assembly. The plan is qualified under the Internal Revenue Code Section 401(a) and is tax exempt.

The plan is a contributory defined benefit plan which covers substantially all Authority employees. PERF retirement benefits vest after 10 years of service. Effective July 1, 1995, Senate Bill 74 enabled PERF members to be eligible for early retirement with 100% of the defined benefit pension if certain conditions were met. An employee may retire with full benefits at age 60 with 15 or more years of service or at age 55 if the employee's age plus years of service equals 85 or more (Rule of 85). If neither of the above conditions are met, an employee may retire with 100% of the defined pension at age 65 with 10 or more years of service. This annual pension benefit is equal to 1.1% times the average annual salary times the number of years and months of PERF-covered employment. The average annual salary used for calculating the pension benefit is an average of the employee's highest five years of employment earning within the 10 years preceding retirement. Employees who retire between the ages of 50 and 65 with 15 or more years of service receive a pension benefit that is reduced by various percentages according to the member's age.

Employees have two choices regarding their annuity savings account. They may elect to receive the contributions and accumulated earnings in a lump sum at retirement, or, they may choose to receive the annuity amount as a monthly supplement to their employer-provided pension described in the paragraph above.

PERF issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to PERF, Harrison Building, Suite 800, 143 West Market Street, Indianapolis, Indiana 46204.

(b) Funding Policy

The Authority contributes the employees required contribution of 3% of their annual salaries to an annuity savings account that may be withdrawn at any time with interest should an employee terminate employment. The Authority is required by state statute to contribute at an actuarially determined rate. The current rate is 5% of annual covered payroll. The contribution requirements of plan members are determined by State statute.

(c) Annual Pension Cost

For the 2000 plan year, the Authority's annual pension cost of $97,600 exceeded the required contributions. The PERF funding policy provides for actuarially determined periodic contributions at rates that, for individual employees, increase gradually over time so that sufficient assets will be available to pay benefits when due. The rate for the Authority's employee group as a whole has tended to remain level as a percentage of annual covered payroll. The required contributions were determined as part of the June 30, 2000 actuarial valuation using the entry age normal cost method. The asset valuation method is 75% of expected actuarial value plus 25% of market value. The actuarial assumptions included (a) a rate of return on investment of present and future assets of 7.25% per year, compounded annually; (b) projected salary increases of 5.00% per year, attributable to inflation; and (c) assumed annual post retirement benefit increases of 2.00%. PERF uses the level percentage of payroll method to amortize the unfunded liability over a closed 40-year period.

(d) Historical Trend Information

Historical trend information as of the three most recent years available about the Authority's participation in PERF is presented below to help readers assess the plan's funding status on a going-concern basis and assess progress being made in accumulating assets to pay benefits when due. Information for the June 30, 2001 actuarial valuation is not available.

	Annual pension cost (APC)	Percentage of APC contributed	Net pension obligation
June 30, 2001	$ N/A	N/A	N/A
June 30, 2000	97,600	229%	(55,100)
June 30, 1999	85,300	152%	(29,200)

Valuation Date		(1) Actuarial value of assets	(2) Entry age actuarial accrued liability	(2-1) Assets in excess of accrued liability (AEAAL)	(1/2) Funded ratio	(3) Annual covered payroll	[(2-1)/3] AEAAL as a percentage of covered payroll
June 30, 2001	$	N/A	N/A	N/A	N/A	N/A	N/A
June 30, 2000		1,654,000	1,436,000	(218,000)	119.2%	1,158,000	-18.83%
June 30, 1999		1,543,000	1,336,000	(207,000)	115.5%	1,073,000	-19.29%